



JUNE 2011



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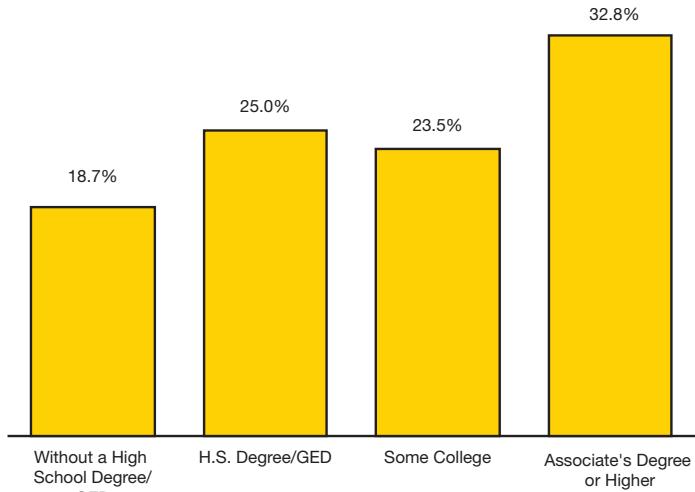
Strategies to Improve Texans' Financial Readiness to Pay for College

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Texas faces numerous challenges, but also abundant opportunities to build the middle class and increase prosperity. Unfortunately, too many Texans are sidelined, lacking access to opportunities to learn, earn, and save to secure a prosperous future for themselves and their families.

A college education provides opportunities for Texans to obtain good jobs and achieve greater economic security. Those with a college degree have higher rates of homeownership, better health, higher income, and lower unemployment rates compared to those without a post-secondary credential. Although enrollment at Texas' public colleges and universities has increased 47 percent since 2000, low-income high school students are less likely to enroll in college than other students, and only half of all high school graduates enroll in college after their senior year.¹ With so few Texans enrolling in higher education, only one-third (32.8 percent) of adult Texans have an associate's degree or higher.² By 2018, over half (56 percent) of Texas jobs will require additional skills and education, thereby making college completion essential to strengthening our workforce.³

Only One-Third of Texans Ages 25-54 Have an Associate's Degree or Higher



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Source: CPPP Analysis, Working Poor Families Project, Population Reference Bureau, Analysis of 2009 American Community Survey

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Tuition increases
+
inadequate financial aid
+
rising student debt
=
barriers to college.

While state policymakers and education stakeholders emphasize academic preparedness of aspiring college students, less attention has been given to financial preparation. As such, Texas lacks a coordinated strategy to align post-secondary financial and academic preparation. Further, many Texas families with aspiring college students may not be connected with opportunities for financial education, college savings, and financial aid.

This paper examines the financial challenges students face in paying for college and proposes solutions to making college more accessible through local and statewide efforts to connect academic and financial preparation for post-secondary education.

Financial Barriers to College

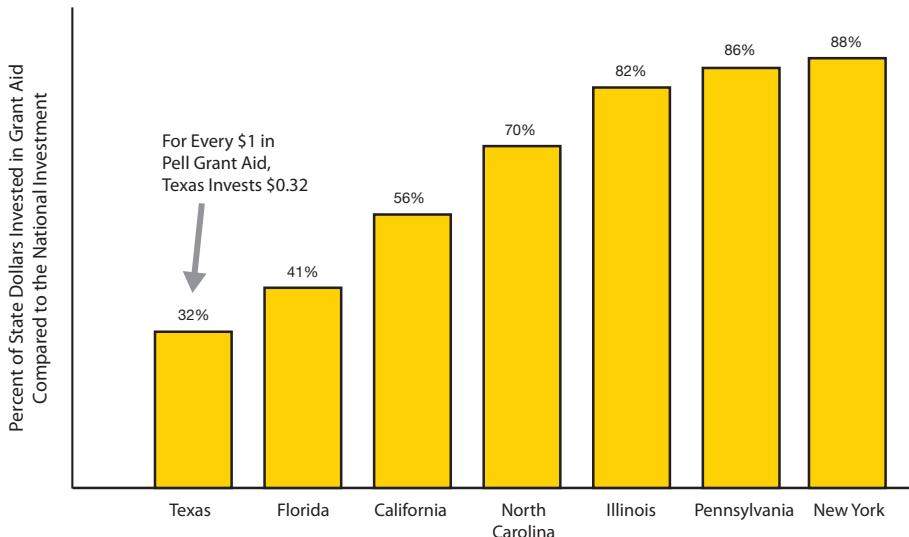
Rising College Costs and Inadequate Financial Aid

Significant tuition increases, inadequate financial aid, and rising student debt present obstacles to college access and success. College students finance the cost of college attendance—tuition, fees, books, supplies, and living expenses—through public and private sources including grants, scholarships, loans, personal savings, parental contributions, and employment.

Since 2002, the average cost of attendance rose 14 percent at both public community colleges and universities.⁴ As college costs have risen, Texas families rely more on financial aid, especially loans, to pay for college. In 2009, more than 754,000 students—60 percent of all students enrolled in Texas public and independent institutions—applied for financial aid.⁵ Of these students, 64 percent had annual incomes below \$40,000.⁶ The financial need of prospective college students will continue to grow as two-thirds of Texas children live in low-income families.⁷

Unfortunately, state and federal financial aid has failed to keep pace with a growing student population and increasing college costs. Overall, Texas invests less than other large states in state financial aid programs, leaving the state more dependent on federal sources of aid. Three-quarters (74.5 percent) of Texas' financial aid dollars came from federal sources in 2009.⁸ However, the real value of the Pell grant, the main source of federal need-based grant aid, has declined over the past three decades and only covers approximately 15 percent of the average cost of attendance in Texas.⁹

Texas Invests Less in Need-Based Aid Compared to Other Large States



Source: CPPP Analysis, National Center for Public Policy and Higher Education, Measuring Up 2008

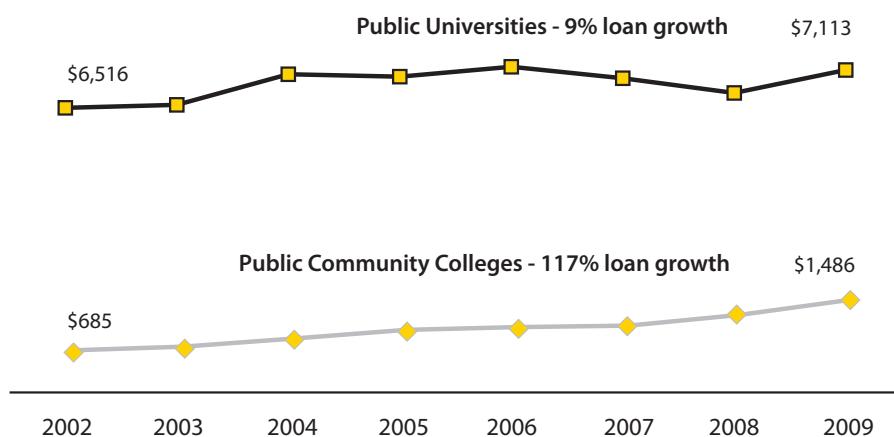
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State financial aid programs also fail to serve all eligible students. Even with a 43.5 percent increase in the state-funded TEXAS Grants (Towards Excellence, Access, and Success) program in 2010-11, grant aid ran out for nearly a third of eligible students.¹⁰ The Texas Educational Opportunity Grant (TEOG), serving needy community college students helped fewer than five percent of eligible students.¹¹ A 15 percent reduction in state financial aid funding beginning in 2012 will cut off an additional 28,700 students from the TEXAS grants program, and 2,250 in the TEOG program.¹²

Student Loans

With state and federal aid programs falling short, loans make up an increasing share of a student's financial aid package, with 58 percent of student aid in Texas coming from loans, compared to 53 percent nationally.¹³ Further, the average student loan amount increased 9 percent at public universities and 117 percent at public community colleges from 2002 to 2009.¹⁴

Dependence on Student Loans Increases for Texas College Students (2009 Dollars)



Source: CPPP Analysis, Texas Higher Education Coordinating Board, Financial Aid Reports 2002-2009

Student Debt

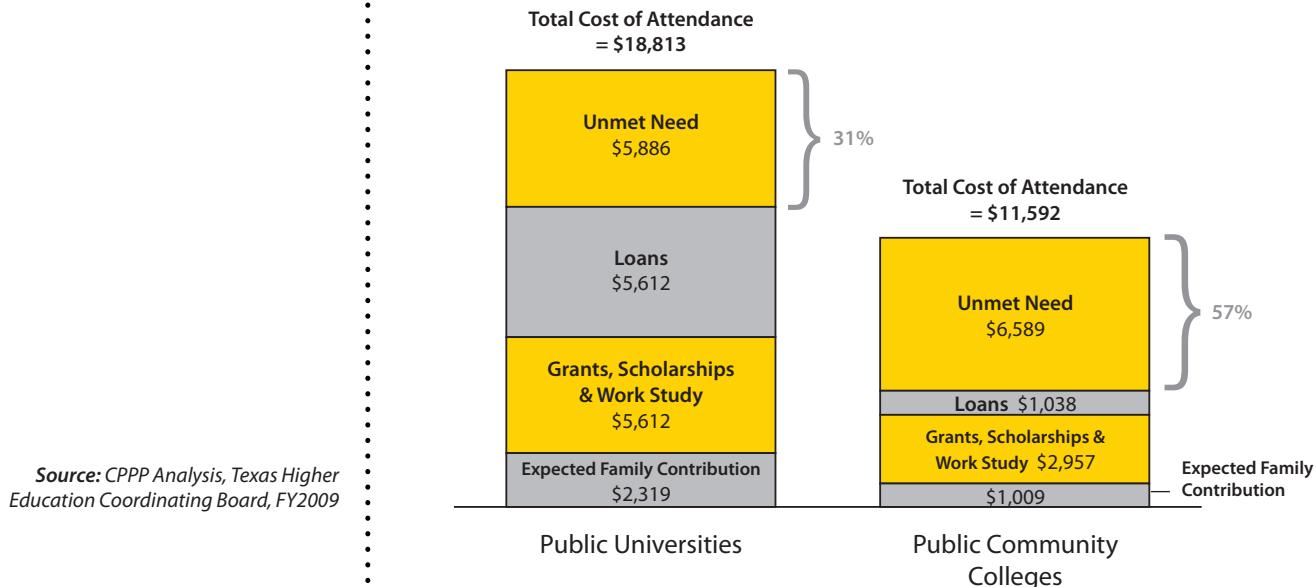
The increase in student loan dependence, coupled with high non-completion rates (66 percent), leaves thousands of students with large debt and no degree.¹⁵ In 2009, average student loan debt of college non-completers was \$10,800 at universities, and \$6,700 at community colleges.¹⁶ Texas ranks 35th in the United States for average student loan debt for college graduates—just over \$20,000 in average student debt for bachelor's degree recipients at Texas public and private four-year institutions.¹⁷

Unmet Need

Even after drawing down all available financial aid, nearly half of all students at two-year (49 percent) and four-year (48 percent) public institutions have some level of unmet need.¹⁸ Unmet need represents the gap between the total cost of attendance and total aid available to the student, including grants, loans, and expected family contribution. Approximately 57 percent of the total cost of attendance at public community colleges and 31 percent at public universities is unmet for Texas college students.¹⁹

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Nearly 60% of Annual Cost of Attendance Unmet for Needy Students at Community Colleges



To fill this financial gap, students often need to work, rely on savings, or obtain higher cost private loans. Four out of five Texas undergraduates work while attending college to cover their educational and living expenses.²⁰ While a few hours of part-time work can benefit students, too many hours of work can delay or postpone college completion. One in three undergraduates who work more than 15 hours per week eventually drop out of college, while over half of undergraduates who work more than 35 hours per week fail to graduate.²¹ Students cite work and finances as the top reasons for dropping out of college.²²

Helping Texas Students Plan and Pay for College

To remove the financial barriers, Texas needs to create a college-going culture that promotes financial preparation through the K-12 education platform. The major components of student financial readiness include:

- Making financial aid adequate and accessible;
- Encouraging college savings; and
- Improving financial education, screening, and planning.

Making financial aid adequate and accessible

State Financial Aid Investments

The state's higher education plan—Closing the Gaps by 2015—commits Texas to increasing financial aid awareness and making grants and scholarships available for every student with financial need.²³ Although Texas' financial aid programs fail to serve all students with need, increased investments in state aid over the past decade have helped tens of thousands of Texans to go to college, including many low-income and first generation Texans. In 2000, just over one million Texans enrolled in higher education institutions.

A decade later, 1.5 million Texans are enrolled in college, a jump of 47.6 percent.²⁴ The yearly number of degrees also has grown by more than 60,000 additional awards since 2000, an increase of 52 percent.²⁵

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Recent cuts to an already underfunded financial aid system

=
additional
barriers to
college for
low-income
Texans.

To build on the success of *Closing the Gaps*, the Texas Legislature and state policymakers must increase investments in aid to low-income and minority students. With recent funding cuts to an already underfunded state financial aid system, Texas is failing in its commitment to reduce the financial barriers for all students with need. To account for population growth, Texas must enroll an additional 229,000 students by 2015.²⁶ As such, the Texas Legislature should index increases in funding for the TEXAS grants and TEOG programs to population growth.²⁷

Investing Early in Financial Aid

Texas policymakers, including the Texas Higher Education Coordinating Board (THECB), the Texas Education Agency, and the Legislature also should take an innovative approach to link financial aid investments to the academic performance of students throughout their elementary and high school education. The “early commitment” financial aid platform makes a promise of financial aid to economically disadvantaged students who meet certain academic benchmarks throughout their K-12 education. Academic milestones could include completion of a rigorous high school program, maintaining a certain grade point average, or performing at the commended level on certain standardized tests.²⁸ An early guarantee of financial aid could improve not only college access by making college more affordable for low-income students, but also college success by encouraging students to be academically college-ready.

In 2009, the Texas Legislature considered a proposal to create the Prepaid Tuition Unit Reward and Incentive program (Senate Bill 2025), an early financial aid program for economically disadvantaged 7th graders. The core components of the proposal included:

- Awarding tuition units to economically disadvantaged 7th grade students performing at the commended level on statewide assessment tests; and
- Making additional tuition unit awards to students based on academic performance and/or performance on statewide assessment tests.

SB 2025 was not enacted due to a lack of funding and no structure to fund financial aid programs through college savings and tuition units. The Legislature, state agencies, and members of business and philanthropy groups should work to develop a system that makes these early investments in financial aid possible for Texas’ low-income students.

Encouraging College Savings

Texas needs to take a proactive and collaborative approach to enrolling more low-income families in college savings vehicles as a means to increase college access and success. In an emerging best practice, public schools are using a financial education curriculum to distribute information to students and families about financing college, such as through pre-paid college savings accounts.

Early post-secondary financial preparation increases the likelihood that students will go to college. Children with a college savings account in their name are seven times more likely—even controlling for race or income—to attend college than children without such an account.²⁹

If they start early enough, many families can finance a portion of their college costs through college savings. Unfortunately, many college savings plans have yet to target and market successfully to low-income working families with young children. As a result, too few working families enroll their children in 529 college savings plans, which yield a tax advantage for college savings investments.

Texas operates two 529 college plans—the Texas College Savings Plan and the Texas Tuition Promise Fund (TTPF), a pre-paid tuition plan. Although over half of Texas children reside in households earning less than \$50,000, less than eight percent of families with an active TTPF account earn less than \$50,000.³⁰

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Early investments in financial aid = new opportunities for low-income students to attend college.

While more affluent families are likely to learn about 529 plans from their financial advisors or by word-of-mouth, low- and moderate-income families could get assistance with a 529 plan while seeking other services, whether from a state caseworker, community tax volunteer, or other social service provider. Unfortunately, outreach about the 529 plans is not integrated with these services. Moreover, college savings outreach is not integrated with efforts to prepare economically disadvantaged students academically for college.

In addition to promoting 529 plans, Texas policymakers, businesses, and philanthropy should invest in the Texas Save & Match program—a matching program connected to the TPPF pre-paid plan. The Save & Match program encourages low-income families to enroll and invest in the prepaid tuition plan by matching their contributions.³¹ While the program allows for a variety of funding sources, including individual contributions, donations, state appropriations, and federal funding, the program has not yet been activated due to a lack of legislative appropriations and other sources of funding.

Improving Financial Education, Screening, and Planning

Increasing FAFSA Completion

Completing the Free Application for Federal Student Aid (FAFSA) increases the likelihood of college enrollment and success by helping students better understand the financial resources available to pay for college. The FAFSA estimates the annual dollar amount a student is able to contribute towards college—known as the Expected Family Contribution (EFC)—and identifies a student’s potential eligibility for federal financial aid.³²

Nationally, 90 percent of students who complete the FAFSA enroll in college compared to 55 percent for non-completers.³³ Students who complete the FAFSA also are 11.9 percent more likely to receive at least one degree compared to those who do not apply for financial aid.³⁴ Unfortunately, the FAFSA’s length and complexity deters many students and families from applying for financial aid. In Texas, one in five college students did not complete the FAFSA. The majority said they did not know how to apply or found the process too time consuming, while 41 percent said they did not want to take out loans.³⁵ Facilitating FAFSA completion would boost college access. In fact, students at for-profit institutions are more likely than their counterparts at public colleges and universities to fill out the FAFSA due in part to the level of assistance those students receive from the institution itself.³⁶

FAFSA Preparation Assistance at VITA Sites and in Texas Public Schools

Integrating FAFSA preparation into existing service delivery systems would help boost access to financial aid and serve as an early financial screening tool for low-income children.³⁷ Volunteer Income Tax Assistance (VITA) sites at community tax centers in Texas have adopted a wrap-around approach to client services, with year-round operations that include financial coaching, FAFSA preparation, and bank account enrollment. Through strategic regional and state partnerships, a handful of these “Opportunity Centers” are emerging in Houston, Austin, and Abilene.

The Department of Education also has launched the FAFSA Completion Pilot program across 20 school sites in the United States, including five in Texas—Austin, Baytown, Dallas, Houston, and San Antonio. The pilot allows the use of FAFSA submission information to help school districts identify areas with low FAFSA completion rates. Districts can then direct FAFSA preparation resources to schools with the greatest need.

FAFSA Preparation through the College Access Challenge Grant

The College Access Challenge Grant (CACG), administered by the THECB, offers another vehicle to increase FAFSA filings. CACG funds can be used to create innovative programs that increase college attendance and create a college-going culture. The states of Connecticut and New Jersey use CACG funds to support FAFSA preparation assistance at

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VITA sites and on college campuses. The THECB, in collaboration with public schools and at VITA sites, should use CACG funds in new and innovative ways that promote FAFSA in locations where students and families are already connected.

Early Financial Screening and Net Price Calculators

Two online tools are available to help prospective students plan and pay for college: the FAFSA4Caster and “institutional net price” calculators. These early screening options provide detailed information to help students make financial decisions about paying for college, including opening a savings account, understanding the total cost of attendance at specific colleges, and identifying all available sources of need- and merit-based financial aid. The K-12 school system and state agencies should work together to ensure that prospective students have access to these online tools and resources through the financial education curriculum and other existing delivery systems.

Recent Policy Developments

Federal

- **Pell Grant:** The proposed federal budget for 2012 would reduce the maximum Pell grant by 15 percent and eliminate the “two-Pell” grant program for students who attend college year-round.
- **For-Profit Colleges & Universities:** The Department of Education released new regulations to establish new measures for determining whether certain post-secondary certificate and degree programs lead to gainful employment in a recognized occupation. The new rules require schools to improve loan repayment and reduce student debt burdens for their students.

State

- **K-8 Financial Education:** Senate Bill 290 requires personal financial literacy training in K-12 math classes.
- **High School Financial Education:** House Bill 34 expands the existing senior-year level financial education component by adding instruction on ways to pay for college, including FAFSA outreach.
- **Post-secondary Financial Education:** House Bill 399(R) requires institutions of higher education to offer personal financial literacy training for adults, including training on saving and loan repayment.
- **Texas Save & Match:** House Bill 3708(R) enhances the Texas Save & Match college savings platform and exempts college savings plans from asset limits when determining a family’s eligibility for financial aid, public health, and other assistance programs.

Next Steps to Help Texans Plan and Pay for College

Texas needs a collaborative approach to building a comprehensive system that helps aspiring students plan and pay for college.

Program and Policy Recommendations

Financial Aid

The Texas Legislature and State Education Agencies should:

- ✓ Index investments in the TEXAS grant and Texas Educational Opportunity Grant need-based programs with population growth
- ✓ Create and fund an “early commitment” financial aid program for economically disadvantaged elementary and high school students

The K-12 system, State Education Agencies and Financial Institutions should:

- ✓ Create and fund an “early commitment” financial aid program for economically disadvantaged elementary and high school students
- ✓ Incorporate information on public and private sources of financial aid into financial education curriculum
- ✓ Teach prospective students about accessing and paying back student loans
- ✓ Reduce student dependence on loans through increased access and availability of early commitment financial aid and other state need-based grant programs

Members of the Business Community and Philanthropy should:

- ✓ Provide additional funding and support to financial aid programs for low-income students
- ✓ Engage with the public sector in promoting awareness of financial aid and overall financial preparation for college

College Savings

The Texas Legislature, Colleges & Universities, Financial Institutions, Volunteer Income Tax Assistance (VITA) programs & Members of the Business Community should:

- ✓ Pursue public and private sources to fund the Texas Save & Match program
- ✓ Improve outreach and marketing of college savings products to low- and moderate-income Texans, including the Texas Save & Match program and 529 plans
- ✓ Connect financial education with a college savings product

The K-12 System Should:

- ✓ Integrate college financial preparation earlier into financial education curriculum in public schools

Members of the Business Community and Philanthropy should:

- ✓ Provide matched contributions in the Texas Save & Match Campaign
- ✓ Engage with the public sector to encourage early college savings
- ✓ Provide support to VITA programs that connect low-income families with college savings products

Financial Planning & Screening

Colleges & Universities, State Education Agencies, Financial Institutions, Volunteer Income Tax Assistance programs, the K-12 system & Members of the Business Community should:

- ✓ Promote awareness of and access to planning and screening tools such as the FAFSA 4Caster and Net Price Calculators
- ✓ Integrate FAFSA preparation at VITA Sites and public schools
- ✓ Use College Access Challenge Grant funds to support FAFSA preparation activities at public schools and colleges, and VITA sites

Members of the Business Community and Philanthropy should:

- ✓ Provide funding and support to VITA programs and other community-based groups that assist with FAFSA preparation and early financial screening

Conclusion

To increase economic mobility for Texans, Texas must boost educational attainment by reducing the financial barriers to a college degree. Through a coordinated effort of state policymakers, the business and philanthropic communities, students and the K-12 public school system, community-based organizations, and financial institutions, Texas can increase the financial resources available to students with need, and improve the overall financial readiness of students and families to pay for college. Together, these coordinated efforts will help create a college-going culture, reduce student dependence on loans, and put more Texans on a path to a college degree. Increased educational attainment will further strengthen Texas' economic base by ensuring a higher-skilled workforce and higher-paying jobs.

Endnotes

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